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SIMPLIFIED CUSTOMS TARIFF TO MAKE CANADIAN BUSINESSES MORE COMPETITIVE

Finance Minister Paul Martin today tabled in the House of Commons a Notice of Ways and Means Motion introducing proposed legislation to implement a new simplified Customs Tariff . Scheduled to come into effect on January 1, 1998, the proposed legislation will coincide with the complete elimination of tariffs with the United States.

The proposed legislation streamlines and updates the Customs Tariff to ensure it is more responsive to the competitive challenges faced by Canadian businesses. It also provides a simpler tariff schedule and rate structure, and eliminates hundreds of regulations and other tariff provisions.

Net duty savings to Canadian businesses and consumers as a result of the new simplified Customs Tariff will amount to an estimated $90 million in 1998. Customs tariff reductions are consistent with the government's policy of helping business in Canada compete more effectively. To date, action by this government has resulted in customs tariff reductions for business and consumers estimated to be worth approximately $600 million in 1996.

"By lowering production costs for Canadian manufacturers, Canada will be more competitive in domestic and global markets -- and that means more jobs for Canadians," Mr. Martin said. He also noted that the new simplified Customs Tariff will broaden the scope of the legislation to allow for tariff reductions on inputs used by the service sector, which employs almost three-quarters of all Canadians.

Mr. Martin indicated that in addition to lowering production costs for Canadian manufacturers, the simplified Customs Tariff will provide further cost savings for both industry and government by reducing red tape -- for example, by eliminating over 300 tariff regulations and administrative procedures and rulings relating to billions of dollars of imported goods.

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The proposed legislation is the result of an extensive review of Canada's tariff system that was announced in the February 1994 budget. Over the past three years, the government has carried out several rounds of public consultations on a wide range of proposals to simplify the tariff regime and make it more responsive to competitive pressures facing Canadian industry. One set of proposals has already been implemented -- tariff reductions on a broad range of goods used as inputs in manufacturing operations, which came into effect on June 13, 1995. In March 1996, the government released a proposed new simplified Customs Tariff for public comment. The legislation tabled today reflects the results of the latest consultations.

A backgrounder providing details on the new simplified Customs Tariff is attached. Copies of the proposed legislation (Notice of Ways and Means Motion) are available at a cost of $32 from the Department of Finance Distribution Centre at (613) 943-8665. The four-volume Custom Tariff schedule is available free of charge on the Internet (see address below) or in printed format at a cost of $245 (which includes the proposed legislation).

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News release, backgrounder and Customs Tariff schedule available on Internet at http://www.fin.gc.ca/

BACKGROUNDER ON PROPOSED NEW SIMPLIFIED CUSTOMS TARIFF

In March 1996, the government released a proposed new simplified Customs Tariff for public comment. This proposal incorporated previous tariff simplification measures made public since 1994 through a series of *Canada Gazette* notices (and mailings to a large number of stakeholders), and reflected comments from interested parties. It also included new proposals developed in the consolidation of the new single tariff schedule to the Customs Tariff, as well as revisions to the Customs Tariff legislative text. The legislation introduced today implements the proposed new Customs Tariff, and reflects additional comments received from interested parties since March 1996.

The legislation proposes a new Customs Tariff that:

- reduces tariffs on a wide range of manufacturing inputs;
- eliminates the "not made in Canada" conditions in a number of duty-free provisions;
- eliminates concessionary tariff codes or converts them, in whole or in part, to tariff items;
- replaces the Machinery Remission Program with appropriate dutiable and duty-free tariff items;
- converts certain specific rates of duty (expressed as dollars or cents per unit) to percentages;
- eliminates a wide range of tariff regulations or replaces them with tariff items;
- modernizes and streamlines the legislative provisions; and,
- consolidates the new tariff schedule through measures that:
    - accelerate the implementation of certain Uruguay Round, manufacturing input and General Preferential Tariff (GPT) tariff reductions;
    - eliminate most "nuisance" rates (those of less than 2%);
    - round down most rates;
    - harmonize certain rates;
    - rectify inconsistencies in the tariff treatment of goods; and,
    - amalgamate tariff items.

A brief explanation of these measures and the resulting benefits are outlined below.

<u>Reductions in Rates of Duty on Manufacturing Inputs</u>

Most of the tariff reductions on manufacturing inputs (covering goods classified under about 1,500 tariff lines) were implemented on June 13, 1995 in anticipation of the loss of duty drawback on exports to the U.S. on January 1, 1996 as a result of the North American Free Trade Agreement (NAFTA). Reducing customs duties on goods used in manufacturing operations reduces costs for Canadian industry, making it more competitive and better able to take advantage of the benefits resulting from freer trade, particularly in the North American market. With the implementation of the new Tariff, the duty paid on a wide range of additional manufacturing inputs will be reduced, effective January 1, 1998.

Elimination of "Not Made in Canada" Conditions in Tariff Provisions

A number of tariff provisions remain that provide duty-free entry for specified goods (mainly inputs) if they are determined by Revenue Canada not to be made in Canada. While these provisions were of particular relevance when tariff rates were relatively high and Canadian industry was generally protected from import competition, they are no longer justified given the openness of the Canadian economy. These provisions also give rise to inconsistencies in the tariff treatment of goods, impose administrative costs on industry and government, and create uncertainty as to the dutiable status of certain goods over time.

Therefore, as was set out in the March 1996 proposal, the remaining provisions will be converted to duty-free items in the tariff schedule without the "not made in Canada" condition, which will allow for a wider range of duty-free goods used mainly in manufacturing products such as motor vehicles, ships and certain machinery. The new items will help Canadian manufacturers improve their competitiveness by giving them access to a broader range of duty-free inputs. Furthermore, the procedures and costs associated with obtaining "not made" rulings from Revenue Canada will be eliminated, reducing red tape and eliminating administrative costs for both government and industry.

Elimination of Concessionary Tariff Codes or their Conversion to Tariff Items

Concessionary tariff codes generally provide for reduced rates or free entry for a wide range of goods for specified uses. With freer trade and changes in trade patterns and technology, many of these provisions are no longer needed or justified, and those that are still relevant can be replaced with provisions in the tariff schedule to increase their transparency and reduce compliance costs.

More than 1,000 codes are being eliminated because there are no imports under these codes, imports under the codes are insignificant, or most imports are from the U.S. and will be duty-free by 1998 under NAFTA. About 1,000 other codes are being converted, in whole or in part, to regular items in the tariff schedule at the same concessionary rates mainly because imports from non-U.S. sources are significant.

Replacement of Machinery Remission Program with Tariff Items

Under the Machinery Program, duties on a broad range of machinery are remitted if reasonably equivalent machinery is not available from Canadian production. The program was particularly relevant when tariff rates were relatively high and covered a broad range of machinery from all sources. Tariff reductions pursuant to the Canada-U.S. Free Trade Agreement, the Uruguay Round and other initiatives such as the input tariff reductions in Bill C-102, now make the program less relevant. As with the "not made" provisions, the Machinery Program imposes administrative costs on industry and creates uncertainty as to the dutiable status of certain machinery over time.

The remission system is being replaced with tariff items -- dutiable items for equipment available in Canada, and duty-free items for equipment that is unavailable domestically. All machinery production parts, and most other parts under the program, will be accorded free entry. Many of the current procedures required to apply for duty remissions and to otherwise administer the program will be eliminated. For a transitional period of three years, "non availability" from Canadian production will be retained as the sole criterion for tariff relief on the remaining dutiable machinery currently covered under the program. The retroactive relief features under the current program will essentially be retained.

With the retention of "non availability" as the sole criterion for tariff relief, Revenue Canada will continue to play a major role in reviewing tariff relief requests on machinery. Revenue Canada will report its findings to the Department of Finance for action through amendments to the tariff schedule. Administrative guidelines will be issued by Revenue Canada in due course regarding the process for seeking relief and the administrative policy that will be applied.

During the three-year transitional period, the Finance Department will review the rates on the remaining dutiable machinery to determine which might be reduced or removed. These changes, together with other tariff reductions on machinery, might result in the tariff relief regime for machinery being placed on the same basis as that for other product areas. Industry will be consulted as part of this process.

The replacement of the Machinery Program will lower costs to machinery users and provide greater transparency and predictability in the tariff system for business decisions.

Conversion of Specific Rates of Duty to Percentages

Specific rates of duty (expressed as dollars or cents per unit) are regarded by some as lacking transparency in that the actual levels of protection and the real impact of these rates are obscured by shipment-to-shipment variations in the values of the imported goods. The vast majority of rates in the Customs Tariff are expressed as percentages. The conversion to percentages of a certain number of specific rates is aimed at achieving a greater harmonization in the rate structure. As was the case with the Customs Tariff proposed in March 1996, alcoholic beverages, certain agricultural products and wool fabrics are not affected by the conversion.

Elimination of Tariff Regulations or their Conversion to Tariff Items

Recent trade developments mean that many tariff regulations are no longer needed or justified. Therefore, some 300 duty remission orders and other regulations will be revoked. Roughly 70 other regulations are being replaced with simpler items in the tariff schedule which provide the same duty treatment. Twelve of these regulations (and 13 tariff items and codes) that provide full or partial tariff relief on certain temporarily-imported goods will be replaced with one item that allows conditional duty-free entry for virtually all such goods.

Another new item replaces a regulation (and code) which allows free entry for a list of sports equipment complying with international standards and used for training or competing in amateur international competitions; the new item provides free entry for all goods of this kind. About 150 regulations are retained principally because they cannot readily be converted to tariff items due to their complexity. These actions will significantly reduce the regulatory burden and provide increased transparency in the tariff regime.

Revision of Legislative Provisions of the Customs Tariff

Many of the legislative provisions under the Customs Tariff will be updated and streamlined to better reflect the current conditions facing Canadian industry and the impact of trade liberalization over the past several years. The majority of these changes are of a technical or housekeeping nature while others result from amendments to the tariff schedule (e.g. the elimination of the "not made in Canada" condition in some tariff provisions and the replacement of the Machinery Program). Other important changes include a broadened Order in Council authority to reduce duties on all inputs used by manufacturers and service providers; a new three-year authority for the Minister of Finance to rectify errors and omissions that may have been made in the new tariff schedule; and the termination of the British Preferential Tariff (BPT). To alleviate or minimize the effects of the BPT termination, an Order in Council will be introduced to maintain rates equivalent to BPT rates on a limited number of significant trade items until those rates have been matched by rate reductions under the Most-Favoured-Nation Tariff as a result of the Uruguay Round.

In view of the number of changes, the current Customs Tariff is being repealed and replaced with an entirely new Act. To complement these changes, substantive amendments are also being made to the Customs Act to harmonize at four years the time limits for claiming duty refunds and for providing for adjustments to tariff classification, origin or value for duty determinations without the requirement for a formal appeal, and to provide for a single level of appeal within Revenue Canada of its decisions. These changes will simplify the administration of the Customs Tariff and provide greater flexibility for business and government in complying with and administering customs laws. It will also reduce related costs.

Consolidation of the Tariff Schedule

The consolidation of the current tariff provisions into a single tariff schedule is being achieved by:

- implementing, on January 1, 1998, most of the final Uruguay Round reductions currently scheduled for January 1, 1999, as well as any final input and General Preferential Tariff reductions applicable to those items;

- eliminating most "nuisance" rates (those under 2 per cent);

- rounding down most decimal rates to the nearest half percentage point;
- harmonizing rates of certain competing products;
- rectifying certain tariff anomalies; and,
- amalgamating a large number of tariff items.

These measures will enhance industry competitiveness, help ease the administrative burden, and generally achieve a simpler rate structure and an overall simpler and more transparent tariff system.

Overall Results

In undertaking tariff simplification, the government identified two major objectives: to improve the competitive position of Canadian industry within a freer trading environment, and to make the tariff system more transparent, predictable and simple so as to lessen the regulatory burden and associated costs for both business and government.

The aim of improving competitiveness will be achieved by implementing several of the measures outlined earlier including tariff reductions on a wide range of manufacturing inputs, removal of the "not made in Canada" conditions from nine broad duty-free provisions, and consolidation measures to the tariff schedule. The broadened Order in Council authority to allow tariff reductions on all inputs used by manufacturers and service providers will also ensure that the government has sufficient flexibility to respond efficiently to the competitive pressures facing Canadian industry.

The tariff system will be made more simple, predictable and transparent by replacing the existing seven tariff schedules with a single tariff schedule containing a simpler rate structure and significantly fewer provisions (about 8,000 compared to 11,000). The system will be further simplified by eliminating or streamlining a significant number of legislative provisions and introducing a new, more flexible tariff schedule format (two tariff columns rather than the current five).

Increased transparency, simplicity and predictability will help reduce the regulatory burden for both business and government. So will eliminating the costs associated both with obtaining Revenue Canada rulings for duty-free entry of goods "not made in Canada" and with complying with administrative procedures under the Machinery Program. There will also be cost savings and efficiency gains with the elimination of more than 300 tariff regulations and the conversion of many regulations to simpler tariff provisions.

IMPACT OF TARIFF SIMPLIFICATION ON SALES AND EXCISE TAXES

The federal Goods and Services Tax (GST), the Harmonized Sales Tax (HST) and the federal excise taxes on specified goods such as tobacco and fuel are imposed under the *Excise Tax*

Act. One of the mechanisms for providing relief from these taxes is through direct references to certain tariff headings and tariff items. For example, section 1 of Part VII of Schedule III to the Act refers to a limited number of tariff headings which include goods that are relieved of excise tax at the time of importation. Also, section 1 of Schedule VII to the Act lists a limited number of tariff headings which include goods that are relieved of the GST or HST when imported into Canada.

As a result of tariff simplification, many of these tariff headings and tariff items have been amended. Consequential amendments to the *Excise Tax Act* will be introduced to ensure that the tax status of imported goods does not change as a result of tariff simplification. These amendments will be effective January 1, 1998.